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Australia

Grain and Feed

Grains Update - December Lockup 2002

Approved by:

Andrew C. Burst

U.S. Embassy

Prepared by:

Andrew C. Burst

Report Highlights:

Widespread drought has sharply reduced Australia's 2002/03 wheat and barley harvests, with expected declines of 56 percent and 53 percent, respectively, from year-earlier levels. Reduced wheat and barley output is expected to sharply curtail exports. The drought and shortages of irrigation supplies are expected to lead to sharp production declines for cotton, rice and sorghum. Exports of these commodities are also expected to fall sharply. An expected 300,000 MT of grain are expected to be imported over the next three months to alleviate feed grain shortages. ABARE released revised commodity projections on December 2, 2002.

Includes PSD changes: No
Includes Trade Matrix: No
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Canberra [AS1], AS

WINTER CROP PRODUCTION DOWN SHARPLY

The drought of 2002 is being characterized as one of Australia's worst of the last 100 years; in certain regions it is considered the worst on record. Adverse weather during most of the growing season across most cropping areas has sharply reduced production of the 2002 winter harvest. Sharply lower yields and production are expected for all major winter crops -- wheat, barley, canola and lupins. The winter crop harvest is nearing completion.

Australia's wheat production in 2002/03 is projected at 10.5 MMT, down 2.0 MMT, or 16 percent, from post's previous projection (see AS2036, dated 10/30/02). Abnormal finishing conditions, which included below average rainfall, severe winds and above average temperatures, is responsible for the month-to-month fall in production. The hot, dry weather is, however, leading to above average protein content and in some areas higher than average screenings.

A wheat crop of 10.5 MMT would be 13.5 MMT, or 56 percent, below last year's harvest and would represent the smallest Australian wheat crop since 1994/95, when production totaled 9.0 MMT. Wheat area in 2002/03 is estimated at 11.0 million hectares, 12 percent lower than in 2001/02. The projected average wheat yield in 2002/03, of 0.95 MT/ha, would be the lowest national average yield since the 0.77 MT/ha in 1982/83.

Barley production in 2002/03 is projected at 3.5 MMT, 0.5 MMT below post's previous projection and down about 4 MMT, or 53 percent, from the year-earlier level. The reduced barley harvest is attributed to a 8.5 percent decline in area and to poor weather conditions through most of the growing season and in most major producing areas, which reduced yields. A 3.5 MMT barley crop represents the smallest output since the drought-reduced 1982/83 harvest.

EXPORTABLE WHEAT AND BARLEY SURPLUS PLUMMETS

Lower output of wheat and barley will severely limit availabilities of these commodities for export. Additionally, feed grain shortages have resulted in milling quality grain being diverted for feed use. Australia's wheat exports in 2002/03 (Oct-Sep year) are expected to fall to about 6.5 MMT, which is about 10 MMT below exports in 2001/02 and would represent the lowest level since 4.1 MMT was exported in 1972/73. Barley exports in 2002/03 (Oct-Sep) are expected to fall to about 1.4 MMT, about 2.5 MMT less than was exported in 2001/02. These projected export levels will require a sharp draw-down in stock levels.

CRITICAL PLANTING STAGE FOR SORGHUM AND OTHER SUMMER CROPS

Summer crop planting decisions are typically driven by factors such as prices, soil moisture levels, irrigation water availability, carryover water allocations from previous years and any stocks of irrigation water held on farm. At the time of writing this report, many cropping areas have yet to experience any significant reductions in water allocations for the summer crop season. However, other stocks of water have been largely depleted, including on-farm storage

and carryover allocations. While water allocations have been sufficient to plant some summer crops, low residual soil moisture levels have necessitated above average water use for planting. Hot weather and severe hot winds have boosted evaporation levels and significantly reduced water use efficiency.

The early season sorghum planting period has passed with anecdotal evidence suggesting only minimal dryland plantings to date. However, plantings of irrigated sorghum, which usually account for a relatively small proportion of the total, appear to be well above average. The increase in irrigated sorghum is coming at the expense of cotton plantings. The irrigated sorghum appears to be in good condition and could conceivably reach harvest without further water applications.

Some timely precipitation has fallen of late in major producing areas of southern Queensland and northern NSW. This precipitation has benefitted already planted sorghum and will benefit the short season sorghum crop, which can normally be planted as early as December and as late as the first week in February. However, significant precipitation is needed if there is to be any substantial planting of dryland sorghum. Soil moisture levels are still very low and weather over the next several weeks will be critical in determining sorghum area and yields and total production potential. Timely rains, in combination with high feed grain prices, could still lead to increased sorghum plantings. If current dry conditions continue, however, sorghum area and yield will suffer.

Given current conditions, the 2003/04 sorghum crop is expected to fall to 1.0 MMT, 825 TMT, or 45 percent, lower than the year-earlier level. Sorghum area is projected at 500,000 hectares, 35 percent below the 773,000 hectares harvested in the previous year. A sorghum crop of this size would severely limit availability for domestic feed use and sharply curtail the quantity available for export.

Shortages of irrigation water are also expected to lead to steep declines in area planted and production of rice and cotton, Australia's other two major summer crops. Australia's rough rice production in 2003/04 (harvested March 2003) is projected at 450 TMT on an area base of 55,000 hectares. Australia's 2002/03 cotton crop (harvested March 2003) is expected to total 300 TMT, from 240,000 hectares. Year-earlier production levels for rice and cotton were 1.3 MMT and 684 TMT, respectively. As for sorghum, smaller harvests of rice and cotton are expected to sharply reduce quantities available for export.

FEED GRAIN IN SHORT SUPPLY, IMPORTS ON THE HORIZON

Australia's ongoing severe drought, which has dried up pastures and sharply reduced winter crop output, is causing critical domestic shortages of feed grain, and driving prices up substantially. In some areas of the country, feed grain prices are currently on par with premium grade milling wheat and in some cases commanding higher on farm prices. Lot feeders, the poultry and pork

industries, and others that depend on feed grains are complaining about rising feed prices and have called on the government to facilitate imports. Given current price differentials, the diversion of milling quality wheat into feed channels is further constraining the quantity of wheat available for export.

To take the pressure off rising feed demand and high prices, the Australian government is preparing for significant grain imports. Applications to import grain are now being lodged with the Australian Quarantine and Inspection Service (AQIS). AQIS reports that, to date, two import permits have been issued for about 100 TMT of feed grain imports -- about equally divided between U.S. corn and EU feed wheat. AQIS has also received applications for permission to import hundreds of thousands of tons of additional grain and likely will be issuing additional import permits in the near future.

Given diseases of quarantine concern, AQIS must issue an import permit for all grain imported into Australia. AQIS has protocols in place that permit corn and sorghum to be imported from the United States and wheat to be sourced from the EU. To be imported into Australia, U.S. corn and sorghum require a number of stringent mitigation measures -- imports are only approved for entry at specific ports and all imported grain must be denatured (hammer milled and steam pelletized) at approved premises before being shipped to inland locations. Similar treatment will be required for imported wheat; in addition the wheat must be sourced from areas free of karnal bunt. These treatment requirements significantly increase the unit cost of imports and potentially reduce feed nutritional value. Post anticipates that imported feed grain will likely be used in high valued manufactured feedstuffs, as domestically-produced grain will likely be fed locally to drought affected livestock.

Australia is expected to import 300 TMT of feed grain between now and the beginning of the summer crop harvest (March 2003). These imports would be the first significant grain imports into the country since the drought of 1994/95, when Australia imported a combination of about 500,000 MT of sorghum, corn and wheat. Actual feed grain imports will depend on the success of the current summer cropping season and the subsequent impact on domestic feed grain prices and availability.

EXPORTS OF COTTON AND RICE ALSO EXPECTED TO PLUMMET

Sharply lower output of cotton and rice is projected to severely curtail the quantities of cotton and rice available for export. Australia's cotton exports in 2002/03 (Aug-July) are expected to total 400 TMT, down from the 750 TMT exported in 2001/02. To accomplish this export level, 2002/03 cotton ending stocks are expected to fall 27 percent. Milled rice exports in 2003/04 (Mar-Feb) are expected to fall to 250 TMT, down from the 575 TMT projected for 2002/03. Similarly, rice ending stocks are expected to fall by 50 percent to accommodate this export forecast.

ABARE DECEMBER CROP REPORT

The Australian Bureau of Agricultural Research and Economics (ABARE) released a crop report on December 2, 2002, providing area, yield and production updates (as of November 27) for the nearly completed winter crop harvest and the just commenced summer crop season. ABARE released a Special Drought Issue of the Australian Crop Report on October 29, 2002, which contained downward-revised projections for the principal winter crops -- wheat, barley, canola and lupins. The previous ABARE crop report, issued in early September, contained more comprehensive projections for winter and summer crop area, yield and production.

ABARE's December Report contains slight downward revisions in Australia's current wheat and barley harvests (2002/03) and sharp cuts in expected production from the upcoming summer crop (harvested beginning in March 2003). ABARE reports that the current 2002 winter crop growing season has in many regions been one of the worst on record. For the summer crop, ABARE reports that rainfall in the major dryland summer cropping regions has been well below average during October and November in the leadup to the sowing of summer crops which usually occurs from October to December depending on the arrival of the rain. ABARE also reports that shortages of irrigation water will result in substantial cuts in the areas sown to the major summer irrigated crops of cotton and rice in 2002-03.

ABARE projects Australia's 2002/03 wheat crop at 9.98 MMT, down marginally from the previous projection of 10.13 MMT, and down from last year's 23.96 MMT. ABARE estimates wheat area in 2002/03 at 11.03 million hectares, up slightly from the previous (October) projection of 10.82 million hectares, but below last year's 12.53 million hectares.

ABARE projects Australia's 2002/03 barley crop at 3.26 MMT, down marginally from the previous projection of 3.36 MMT, and down from last year's 7.46 MMT. ABARE estimates barley area in 2002/03 at 3.09 million hectares, down from the previous (October) projection of 3.20 million hectares, and last year's estimate of 3.39 million hectares.

ABARE also revised downward expected output of canola and lupins, the other two major winter crops. The 2002/03 canola crop is projected at 621 TMT and the lupin crop at 654 TMT. The 2001/02 canola crop is estimated at 1.6 MMT and the 2001/02 lupin crop at 1.1 MMT.

In the December Crop Report, ABARE slashed projected output for the major 2002-03 summer crops. Sorghum production is projected at 855 TMT, about 1 MMT below the previous forecast and down from last season's 1.78 MMT. Rough rice production is projected at 380 TMT, down about 600 TMT from the previous forecast, and down from the 1.29 MMT harvested last season. Cotton production is only expected to reach 238 TMT, down 140 TMT from the previous forecast and down from last season's 684 TMT. Corn production is expected to fall to 244 TMT, down 280 TMT from the previous forecast and down from last season's 355 TMT. These production declines are attributed to sharply lower area and, for sorghum, cotton, and corn, lower expected yields.

AUSTRALIA WHEAT: State-Level Statistics						
(Million Hectares; Tons Per Hectare; Million Tons)						
			ABARE	ABARE	POST	POST
			EST.	EST.	EST.	EST.
	2000/2001*	2001/2002	2002/2003	2002/2003	2002/2003	2002/2003
Queensland			Oct	Dec	Nov	Dec
Area	0.987	0.730	0.465	0.465	0.465	0.465
Yield	1.306	1.151	1.183	0.968	1.402	0.968
Prod	1.289	0.840	0.550	0.450	0.652	0.450
New South Wales						
Area	3.645	3.720	2.500	2.950	2.500	2.950
Yield	2.299	2.003	0.680	0.712	0.900	0.763
Prod	8.380	7.450	1.700	2.100	2.250	2.250
Victoria						
Area	1.259	1.360	1.300	1.450	1.300	1.450
Yield	2.683	2.059	0.769	0.621	1.269	0.690
Prod	3.378	2.800	1.000	0.900	1.650	1.000
South Australia						
Area	2.119	2.120	2.100	2.010	2.100	2.010
Yield	2.116	2.476	1.143	1.095	1.405	1.144
Prod	4.484	5.250	2.400	2.200	2.950	2.300
Western Australia						
Area	4.753	4.590	4.000	4.150	4.000	4.150
Yield	1.306	1.656	1.112	1.036	1.238	1.072
Prod	6.209	7.600	4.450	4.300	4.950	4.450
Total						
Area	13.002	12.526	10.821	11.031	10.821	11.031
Yield	1.827	1.913	0.933	0.905	1.155	0.952
Prod	23.756	23.960	10.100	9.980	12.500	10.500
Estimates based on historical Australian Bureau of Agricultural and Resource Economics reports.						
* Source: Australian Bureau of Statistics						

AUSTRALIA BARLEY: State-level Statistics						
(Million Hectares; Tons Per Hectare; Million Tons)						
			ABARE	ABARE	POST	POST
			EST.	EST.	EST.	EST.
	2000/2001*	2001/2002	2002/2003	2002/2003	2002/2003	2002/2003
Queensland			Oct	Dec	Nov	Dec
Area	0.123	0.090	0.080	0.080	0.080	0.080
Yield	1.008	1.611	1.000	1.000	1.125	1.000
Prod	0.124	0.145	0.080	0.080	0.090	0.080
New South Wales						
Area	0.643	0.535	0.400	0.400	0.400	0.400
Yield	1.997	2.121	0.750	0.850	1.125	1.000
Prod	1.284	1.135	0.300	0.340	0.450	0.400
Victoria						
Area	0.735	0.732	0.730	0.680	0.730	0.680
Yield	2.450	2.049	0.479	0.574	0.616	0.618
Prod	1.801	1.500	0.350	0.390	0.450	0.420
South Australia						
Area	1.114	1.020	1.030	0.970	1.030	0.970
Yield	2.241	2.598	1.456	1.289	1.456	1.392
Prod	2.496	2.650	1.500	1.250	1.500	1.350
Western Australia						
Area	1.050	1.000	0.950	0.950	0.950	0.950
Yield	1.394	2.000	1.158	1.232	1.263	1.263
Prod	1.464	2.000	1.100	1.170	1.200	1.200
Total						
Area	3.675	3.389	3.202	3.092	3.202	3.092
Yield	1.958	2.201	1.049	1.054	1.171	1.132
Prod	7.196	7.459	3.360	3.258	3.750	3.500
Estimates based on historical Australian Bureau of Agricultural and Resource Economics reports.						
* - Source: Australian Bureau of Statistics						